

GANNON CENTER FOR  
COMMUNITY MENTAL HEALTH --  
MAQUOKETA OFFICE

FINANCIAL STATEMENTS

JUNE 30, 2004  
AND  
INDEPENDENT AUDITORS' REPORTS

GANNON CENTER FOR COMMUNITY MENTAL HEALTH -- MAQUOKETA OFFICE  
JUNE 30, 2004

Table of Contents

	<u>Page</u>
Board of Directors	3
Independent Auditors' Report	4
Financial Statements:	
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9 - 13
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting	14 - 15

GANNON CENTER FOR COMMUNITY MENTAL HEALTH -- MAQUOKETA OFFICE

Board of Directors

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mary Lou Baal	President	May 2005
Barb Potts	Vice-President	May 2006
Jan Kunau	Secretary	May 2007
Marilyn Osterhaus	Treasurer	May 2006

DUBUQUE CO:

Jim Waller	Member	May 2005
David Berry	Member	May 2007
Nancy Zachar Fett	Member	May 2005
Rima Britt	Member	May 2007

JACKSON CO:

Steven Kahler	Member	May 2005
Penny Percy	Member	May 2006
Jack Willey	Member	May 2005

CLINTON CO:

Ruthann Papke	Member	May 2006
Sr. Ruth Cox	Member	May 2005
Lewis Todtz	Member	May 2006

## Independent Auditors' Report

To the Board of Directors  
Gannon Center for Community Mental Health -- Maquoketa Office

We have audited the accompanying financial statements, listed in the table of contents of this report, of Gannon Center for Community Mental Health -- Maquoketa Office (a nonprofit organization), as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gannon Center for Community Mental Health -- Maquoketa Office at June 30, 2004, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2005 on our consideration of Gannon Center for Community Mental Health--Maquoketa office's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

JIM KIRCHER & ASSOCIATES, P.C.

Dubuque, Iowa  
January 7, 2005

GANNON CENTER FOR COMMUNITY MENTAL HEALTH -- MAQUOKETA OFFICE

STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2004

	Unrestricted		
	Property and		
	Current	Equipment	Total
Cash	\$ (90,356)	\$ -0-	\$ (90,356)
Accounts receivable, patient services, less allowance for doubtful accounts \$ 25,300	90,912	-0-	90,912
Prepaid expenses	4,207	-0-	4,207
Grants receivable	97	-0-	97
Self funded dental insurance surplus	3,510	-0-	3,510
Property and Equipment:			
Furniture and fixtures	-0-	53,521	53,521
Leasehold improvements	-0-	8,398	8,398
Accumulated depreciation	-0-	(47,242)	(47,242)
Total Assets	<u>\$ 8,370</u>	<u>\$ 14,677</u>	<u>\$ 23,047</u>
Liabilities and Net Assets			
Liabilities:			
Accounts payable	\$ 921	\$ -0-	\$ 921
Accrued salaries	11,290	-0-	11,290
Compensated absences	14,529	-0-	14,529
Due to affiliates	27,710	-0-	27,710
Total Liabilities	<u>\$ 54,450</u>	<u>\$ -0-</u>	<u>\$ 54,450</u>
Net Assets - Undesignated	<u>\$ (46,080)</u>	<u>\$ 14,677</u>	<u>\$ (31,403)</u>
Total Liabilities and Net Assets	<u>\$ 8,370</u>	<u>\$ 14,677</u>	<u>\$ 23,047</u>

See accompanying notes to financial statements.

GANNON CENTER FOR COMMUNITY MENTAL HEALTH -- MAQUOKETA OFFICE

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004

		Unrestricted	
		Property and Equipment	
	Current		Total
<u>PUBLIC SUPPORT AND REVENUE</u>			
<u>Public Support:</u>			
CMHS Grant	\$ 583	\$ -0-	\$ 583
Rural Health Grant	5,740	-0-	5,740
School Board Youth Services			
Contract	6,650	-0-	6,650
Contributions	4,423	-0-	4,423
Total Public Support	<u>\$ 17,396</u>	<u>\$ -0-</u>	<u>\$ 17,396</u>
<u>Revenue:</u>			
Patient fees	\$ 341,453	\$ -0-	\$ 341,453
Management & personnel costs			
reimbursement	25,771	-0-	25,771
Total Revenue	<u>\$ 367,224</u>	<u>\$ -0-</u>	<u>\$ 367,224</u>
Total Public Support			
and Revenue	<u>\$ 384,620</u>	<u>\$ -0</u>	<u>\$ 384,620</u>
<u>EXPENSES</u>			
<u>Program Services:</u>			
Community mental health services	\$ 235,020	\$ -0-	\$ 235,020
Community support program	<u>50,656</u>	<u>-0-</u>	<u>50,656</u>
Total Program Services	\$ 285,676	\$ -0-	\$ 285,676
Support Services	<u>203,041</u>	<u>3,816</u>	<u>206,857</u>
Total Expenses	<u>\$ 488,717</u>	<u>\$ 3,816</u>	<u>\$ 492,533</u>
Changes in net assets	\$ (104,097)	\$ (3,816)	\$ (107,913)
Net Assets Beginning of Year	58,017	18,493	76,510
Net Assets End of Year	<u>\$ (46,080)</u>	<u>\$ 14,677</u>	<u>\$ (31,403)</u>

See accompanying notes to financial statements.

GANNON CENTER FOR COMMUNITY MENTAL HEALTH -- MAQUOKETA OFFICE

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2004

	Community Mental Health	Community Support Program	Total Programs	Support Services	Total
Salaries	\$ 106,856	\$ 37,946	\$ 144,802	\$ 77,463	\$ 222,265
Payroll taxes	7,653	2,710	10,363	5,580	15,943
Group health insurance	13,850	4,905	18,755	10,099	28,854
Group disability insurance	568	201	769	415	1,184
Group retirement	<u>5,108</u>	<u>1,809</u>	<u>6,917</u>	<u>3,725</u>	<u>10,642</u>
Total salaries and related expenses	<u>\$ 134,035</u>	<u>\$ 47,571</u>	<u>\$ 181,606</u>	<u>\$ 97,282</u>	<u>\$ 278,888</u>
Professional fees	\$ -0-	\$ -0-	\$ -0-	\$ 3,049	\$ 3,049
Supplies	501	1,287	1,788	3,876	5,664
Telephone	-0-	-0-	-0-	10,978	10,978
Utilities	-0-	-0-	-0-	2,222	2,222
Postage and shipping	-0-	-0-	-0-	1,698	1,698
Occupancy	-0-	-0-	-0-	35,232	35,232
Equip. rental and maintenance	-0-	-0-	-0-	1,394	1,394
Travel	1,831	1,650	3,481	1,596	5,077
Conferences	639	148	787	591	1,378
Advertising	-0-	-0-	-0-	1,857	1,857
Insurance	2,567	-0-	2,567	7,942	10,509
Computer expense	-0-	-0-	-0-	5,803	5,803
Staff recruitment	-0-	-0-	-0-	1,869	1,869
Intercompany payroll	95,411	-0-	95,411	269	95,680
Management fees	-0-	-0-	-0-	27,255	27,255
Miscellaneous expenses	36	-0-	36	128	164
	<u>\$ 100,985</u>	<u>\$ 3,085</u>	<u>\$ 104,070</u>	<u>\$105,759</u>	<u>\$ 209,829</u>
Total expenses before depreciation	\$ 235,020	\$ 50,656	\$ 285,676	\$ 203,041	\$ 488,717
Depreciation	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>3,816</u>	<u>3,816</u>
Total expenses	<u>\$ 235,020</u>	<u>\$ 50,656</u>	<u>\$ 285,676</u>	<u>\$ 206,857</u>	<u>\$ 492,533</u>

See accompanying notes to financial statements.

GANNON CENTER FOR COMMUNITY MENTAL HEALTH - MAQUOKETA OFFICE  
STATEMENT OF CASH FLOWS  
JUNE 30, 2004

Cash Flows Used from Operating Activities:	
Cash received from patient fees	\$ 364,995
Cash received from grants	14,018
Cash received from contributions	4,423
Cash received from management and personnel cost reimbursements	25,771
Cash paid by employees and suppliers	<u>(499,926)</u>
Net Cash Used from Operating Activities	<u>\$ (90,719)</u>
Net Decrease in Cash and Equivalents	\$ (90,719)
Cash and Equivalents at Beginning of Year	<u>363</u>
Cash and Equivalents at End of Year	<u><u>\$ (90,356)</u></u>
Reconciliation of Changes in Net Assets to Net Cash Used from Operating Activities	
Change in Net Assets	<u>\$ (107,913)</u>
Adjustments:	
Depreciation	\$ 3,816
Changes in Assets and Liabilities:	
Decrease in patient accounts receivable	23,542
Increase in prepaid expenses	(4,033)
Decrease in self-funded dental insurance surplus	2,794
Decrease in grants receivables	5,052
Decrease in accounts payable	(3,444)
Increase in accrued salaries	1,445
Decrease in due to affiliates	(4,007)
Decrease in compensated absences	<u>(7,971)</u>
	<u>\$ 17,194</u>
Net Cash Used from Operating Activities	<u><u>\$ (90,719)</u></u>

See accompanying notes to financial statements.



NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

(1) Summary of Significant Accounting Policies

A. Reporting Entity

Gannon Center for Community Mental Health - Maquoketa Office is a division of the Gannon Center for Community Mental Health, an Iowa corporation qualifying for exemption from income tax under Section 501 (c) (3) of the Internal Revenue Code. The corporation has five other operating divisions:

Gannon Center for Community Mental Health - Dubuque Office;  
Dubuque, Iowa  
Julien Care Facility; Dubuque, Iowa  
Andrew Jackson Care; Bellevue, Iowa  
Julien Care Facility - Behavioral Adjustment Unit; Dubuque, Iowa  
Gannon Center for Community Mental Health - Clinton Office;  
Clinton, Iowa

The information in this report relates to the Gannon Center for Community Mental Health - Maquoketa Office.

The center is established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents of Jackson County.

B. Fund Accounting

The accounts of the Center are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are grouped as follows in the financial statements:

Current Fund - The unrestricted fund accounts for all resources over which the Center has discretionary control to use in carrying on the operations of the organization in accordance with the limitations of its charter and bylaws except for unrestricted amounts invested in land, buildings and equipment that may be accounted for in a separate fund.

The Center's Board may designate portions of the current unrestricted fund for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets. The Center maintains separate accounts for such designation within the current fund and segregates the designated and undesignated portions of the fund within the net assets section of the balance sheet.

Property and Equipment Fund - The property and equipment fund is used to accumulate the net investment in fixed assets and to account for the unexpended resources contributed specifically for the purpose of acquiring or replacing land, buildings or equipment for use in the operations of the organization.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(CONTINUED)

(1) Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Purchases of fixed assets providing future benefits are directly charged against the current unrestricted fund balance and capitalized in the property and equipment fund.

D. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

E. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2004.

F. Receivables

Receivables are shown at the amount expected to be collected after determining the allowances for doubtful accounts based on an aging of all the individual patient balances.

G. Property and Equipment

Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of 5-10 years.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(CONTINUED)

(1) Summary of Significant Accounting Policies (Continued)

H. Compensated Absences

Center employees accumulate a limited amount of earned but unused vacation, personal day benefits payable to employees, and a limited amount of accumulated sick leave payable on termination of employment. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on current rates of pay.

I. Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

J. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Total Column

The total column on the balance sheets and the statement of activities is presented to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(CONTINUED)

## (2) Property and Equipment

A summary of changes in property and equipment is as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Furniture and Fixtures	\$ 53,521	\$ -0-	\$ -0-	\$ 53,521
Leasehold Improvements	8,398	-0-	-0-	8,398
Total	<u>\$ 61,919</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 61,919</u>

## (3) Retirement Plan

The Organization has a contributory 401(k) retirement plan. Substantially all employees are eligible for the salary deferral portion of the plan while employees must have at least one year of continuous service with 1,000 hours worked to be eligible for the Organization's contribution equal to five percent of the employee's gross salary. Employees are vested immediately on salary deferral contributions. Vesting for the Organization's contributions are stepped at a rate of twenty percent a year. Retirement plan expense for fiscal year ended June 30, 2004 was \$10,642.

## (4) Lease Agreement

The Gannon Center for Community Mental Health leases 4,366 square feet of office space at 115 S. Olive St. in Maquoketa, Iowa from Jack R. And Pamela B. Rosenberg. The lease is for five years commencing September 1, 2002 and ending August 31, 2007. Rental expense was \$35,232 for the fiscal year ended June 30, 2004.

Minimum annual rentals are as follows:

Year ending June 30,	
2005	\$ 35,232
2006	35,232
2007	35,232
2008	5,872
	<u>\$ 111,568</u>

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(CONTINUED)

(5) Related Party

The Center was reimbursed \$ 25,771 for services it provided to a related operating division.

The Center reimbursed a related operating division \$ 122,935 for services provided.

(6) Center Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

(7) Self Insurance

The Center is self-insured for its employees' dental care claims. Insurance providers assist the Center in determining its estimated liabilities for these self-insured claims.

(8) Economic Dependence

The Center receives a substantial amount of its support from local county government. A significant reduction in the level of this support, if this were to occur, may have an effect on the Center's programs and activities. A large portion of the Center's revenue from patient fees is paid by third-party reimbursement whereby patients qualify for funding through Title XIX of the federal Social Security Act. Changes in the level of funding for this program could have a considerable effect on the patient's ability to pay for services provided.

(9) Concentration of Credit Risk:

The Center, and its six divisions, maintain cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2004 the Center, and its six divisions, have uninsured cash balances at one of the institutions.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors  
Gannon Center for Community Mental Health -- Maquoketa Office

We have audited the financial statements of Gannon Center for Community Mental Health -- Maquoketa Office (a nonprofit organization) as of and for the year ended June 30, 2004, and have issued our report thereon dated January 7, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Gannon Center for Community Mental Health -- Maquoketa Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under **Government Auditing Standards**.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gannon Center for Community Mental Health -- Maquoketa Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by the employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Gannon Center for Community Mental Health -- Maquoketa Office in a separate letter dated January 7, 2005.

This report, a public record by law, is intended solely for the information and use of Gannon Center for Community Mental Health- Maquoketa Office and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

JIM KIRCHER & ASSOCIATES, P.C.

Dubuque, Iowa  
January 7, 2005